22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.6 Calculation of the Total Revenue Commitment (TRC) (Cont'd)

(B) Application of Credits (Cont'd)

(1) Basic Credits (Cont'd)

(b) Application of the Maximum Basic Credit (Cont'd)

Credits will not be issued unless the Customer has met the monthly TRC and the 95 percent Access Service Ratio. Under the Contract Year True-up Process, any credits due to the customer will be paid, except for those months the Customer was not in compliance with the 95 percent Access Service Ratio. Any credits paid will not exceed the amount described in 22.Y.6, Table 7.

A final true-up will take place at the end of each Contract Year as described in Section 22.Y.8.

(c) Any of the following credits issued to the Customer and associated with the Contributory Services included in the TRC (including MVP Commitment credits earned in 2005, MVP SLA credits earned in 2005, DVP credits, any Basic Credits received pursuant to this Contract Offer) will be applied by the SBC Telephone Companies in satisfaction of any applicable Basic and Achievement Credit obligations under this Contract Offer.

Example

The Customer has Contract Year 1 TRC of $26.25M. The Customer achieves 168.5 percent of the Contract Year 1 TRC equal to $44.63M. The Customer has received or is entitled to receive a total of $7M in MVP Commitment Credits and $2M in MVP SLA Credits for a total of $9M in credits unrelated to this Contract Offer.

SBC Telephone Companies' Basic Credit obligations to the Customer in the amount of $18M ($44.63M - $26.25M, rounded to the nearest million) under Contract Offer No. Y, as described in Table 6, will be satisfied by the $9M in non-contract related credits acquired by the Customer under MVP and MVP SLA, and $9M in Basic Credits paid related to this Contract Offer. This amount will be determined at the final Contract Year true-up period once all other credits have been applied accordingly.

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.6 Calculation of the Total Revenue Commitment (TRC) (Cont'd)

(B) Application of Credits (Cont'd)

(1) *Basic Credits (Cont'd)*

(c) (Cont'd)

The Customer will not pay less than the TRC for the Contract Year. If the Customer does not achieve the TRC at the end of each Contract Year, through the purchase of Contributory Services, the Customer will be required to pay the deficiency.

Basic Credits shall be calculated and awarded on an aggregate basis across the SBC Telephone Companies. If qualified for a Basic Credit, an award of Basic Credit under this Contract Offer shall satisfy any Basic Credit obligations of the other SBC Telephone Companies under the tariff offerings listed in Section 22.Y.2(C), and an award of Basic Credit under such other contract offers_shall satisfy any Basic Credit obligations under this Contract Offer No. Y.

(2) Achievement Credits

Achievement Credits are those credits the Customer will receive based on purchases of Contributory Subject Services above the TRC plus the maximum Basic Credit Amount as described in Table 7 preceding.

(a) The Customer may receive Achievement Credits if the Customer's Gross Spend for any Contract Year exceeds the TRC plus the Maximum Basic Credit, as described in Table 7 preceding. The Customer will receive a discount on Contributory Subject Services equal to 17 percent of total revenue above the sum of the TRC plus the Maximum Basic Credit Amount. Any applicable Achievement Credit will be paid out at the end of each Contract Year.

Achievement Credits shall be calculated and awarded on an aggregate basis across the SBC Telephone Companies. If qualified, award of Achievement Credit under this Contract Offer shall satisfy the SBC Telephone Companies' Achievement Credit obligations.

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.6 Calculation of Total Revenue Commitment cont'd

(B) Application of Credits (Cont'd)

(2) Achievement Credits (Cont'd)

(a) (Cont'd)

Example:

The Customer has TRC for Contract Year 1 of $26.25M. The Customer achieves 175 percent of TRC equal to $45.94M. The Customer will receive $18M in Basic Credits as described above, and the Customer will receive $223K in Achievement Credits calculated as follows:

($45.94M minus (Contract Year 1 TRC x 168.5%)) x 17%

$45.94M – $44.63M ($26.25M x 168.5%) = $1.31M
$1.31M x 17% = $223K (Achievement Credits).

Table 8

168.5% of TRC	$44.63M
Gross Spend Achievement during Contract Year (GSA)	$45.94M
Difference between 168.5% of TRC and GSA	$1.31M
Credit due for billed revenue above 168.5% of TRC x 17%	$223K

The Customer receives $18M in Basic Credits plus $223K in Achievement Credits for total credits of $18.223M as described in Table 8.

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.6 Calculation of Total Revenue Commitment cont'd

(B) Application of Credits (Cont'd)

(3) *Transfer of Qualified Services*

(a) Customer may transfer services purchased from SBC non - wholesale entities or channels, or purchased by the Customer under a different Access Customer Name Abbreviation (ACNA) than those identified under this Contract Offer. Upon such transfer, the Customer's TRC commitment must be increased proportionally, based on the amount of revenue associated with the transferred services. The Customer's Maximum Basic Credit amount will not change as a result of this transfer.

Example: Customer has a Contract Year 1 TRC of $26.25M and is eligible to earn up to a maximum of $18M in Basic Credits. Customer transfers $10M of services from a non-SBC wholesale entity. The Customer's new Contract Year 1 TRC will be $36.25M ($26.25M plus $10M = $36.25M). The Customer's maximum Basic Credit ($18M) will not change as a result of the transfer.

This increase in the TRC amount will apply to Contract Year 2 and Contract Year 3, as well as any optional Contract Year Extension.

22.YY.7 Portability

(A) The SBC Telephone Companies will waive termination liability charges for moves and/or disconnection of non-channelized DS1, DS3, OCN PTP services connecting to an end user premise provided the following criteria are met, and provided the Eligibility Criteria in Section 22.Y.2, and Terms and Conditions in Section 22.Y.3 have been met. If the Customer both (i) fails to meet the monthly TRC during the Contract period pursuant to Section 22.Y.6 and (ii) fails to pay the True-up amount, as defined in Section 22.Y.8; or if the Customer fails to comply with the terms and conditions of their underlying term plans, the Customer will be back-billed any termination liability charges that were waived during the Term Period, to the extent such termination liability charges would otherwise apply under the relevant underlying term plans.

(1) The move and/or disconnect may be from any SBC Tariff as described in Section 22.Y.1.

(2) Services moved or disconnected must be in Price Flex MSA's as described in F.C.C. 2, Section 21

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.7 Portability (Cont'd)

(3) Services must be non-channelized and must have at least one end user termination

(4) Customer must meet minimum in-service period for each service as described below:

(a) DS1 – no minimum in-service period
(b) DS3, OC3 and OC12 Point to Point Services – 1 year minimum in-service period
(c) OC48 and OC192 Point to Point Services – 3 year minimum period

(5) Customer must continue to meet the terms and conditions or the underlying term plan

22.YY.8 End of Contract Year True-up Process

To determine TRC achievement a true-up calculation will be performed at the end of each Contract Year during the Contract Term as follows:

(A) At the end of each Contract Year, the Customers Gross Spend, as defined in Section 22.Y.6 preceding, will be calculated to determine the applicable Basic Credit and Achievement Credits.

For true-up calculation purposes, the Gross Spend for Contract Year 1 will include the Customer's Contributory Service revenue for the full 2005 calendar year. The amount of Contributory Service minimum required revenue at final true-up for Contract Year 1 will be the 2005 TRC, plus 9/12's of 86.5 percent of the 2004 Gross Spend, rounded to the nearest million. The applicable Basic Credit Amount and Achievement credit amount received as a result of this calculation will apply only to the TRC amount included in this Contract Offer as described in Table 7 preceding.

For Contract Years 2 and 3, the minimum required revenue shall be equal to the TRC.

The Basic Credit Amount shall be equal to the Gross Spend minus the TRC for each year (or, for Contract Year 1, the Gross Spend minus the sum of the TRC plus 9/12's of 86.5% of 2004 Gross Spend); provided, however, that the Basic Credit Amount shall not exceed the amount provided in Table 7 preceding and will only apply to the TRC amount included in this Contract Offer.

Credits received under this Contract Offer during the Contract Year, as well as any MVP credits, MVP SLA credits, Discount Value Plan (DVP) credits_ will be calculated to determine the amount of Basic Credit the Customer has been paid.

(B) If the Customer's Gross Spend for Contributory Services, after all credits, and shortfall payments, described above, is greater than the minimum required revenue at time of true-up, the Customer will receive a Basic Credit against Contributory Subject Services equal to the amount above the TRC not to exceed the amount outlined in Section 22.Y.6(B) Table 7 preceding.

Example 1: The Customer's TRC for the first Contract Year is $26.25M. The Customer's Gross Spend for Contributory Services, after all credits and adjustments as described above, is $29M. The Customer will receive an additional Basic Credit equal to $2.75M

If the Customer Gross Spend for Contributory Services, after all credits, and shortfall payments, described above, is below the minimum required revenue at the time of the final true-up, the Customer will be billed the amount required to meet the minimum required revenue and will pay such charge pursuant to Section 22.Y.8 (D).

Example 2: The Customer's TRC for the first Contract Year is $26.25M. The Customer's Gross Spend for Contributory Services, after all credits and adjustments as described above, is $23M. The Customer must pay $3.25M.

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.8 End of Year True-up Process (Cont'd)

If the Customer's Gross Spend for Contributory Services, after all credits, and shortfall payments, described above, is greater than the TRC times the maximum Basic Credit (plus 9/12's of 86.5% of 2004 Gross Spend for Contract Year 1), as described in Section 22.Y.6, Table 7,the Customer will receive the Maximum Basic Credit against Contributory Subject Services as described above, and an Achievement Credit against Contributory Subject Services equal to a 17 percent discount on services above the TRC times the maximum Basic Credit amount (plus 8/12's of 86.5% of 2004 Gross Spend for Contract Year 1).

Example 3: The Customer's TRC for the first Contract Year is $26.25M. The Customer's Gross Spend for Contributory Services after all credits and adjustments as described above, is $45.94M. The Customer receives $18M in Basic Credits and $223K in Achievement credits.

(C) If at the time of final true-up the SBC Telephone Companies owe the Customer a Basic Credit amount as described above, the credit will be applied to the Customer's bill no later then 60 days after the final true-up date.

(D) If at the time of true-up the Customer must buy-up to meet the TRC as described above, payment must be submitted to the SBC Telephone Companies no later than 60 days after the true-up date.

22.YY.9 Contract Extension Options

Customer can exercise the option of extending this Contract Offer at the end of the Contract Term. Customer may extend for one year at the end of this Contract Offer (first extension option), and may, if desired, extend yet another year at the end of the first extension year (second extension option). To exercise either option, the Customer must notify the SBC Telephone Companies, in writing, no later than 60 days prior to the expiration of the Term Period or, for the second extension option, 60 days prior to the expiration of the first extension option.

For the first extension option, the TRC shall be determined as follows:

The TRC amounts for the first Contract Year extension option will be equal to the last 3 months of qualified Contributory Services revenue in Contract Year 3 times 4 times 83%, or the Contract Year 3 TRC, whichever is greater. The maximum Basic Credit will be equal to the TRC times 120% minus the TRC amount. An Achievement Credit of 17% will apply on revenue above 120% of the TRC. An Achievement Credit of 17% will apply on revenue above 120% of the TRC.

For the second extension option, the TRC shall be determined as follows:

The TRC amount for the second Contract Year extension option will be equal to the last 3 months of qualified Contributory Services revenue in Contract Year 4 times 4 times 83%, or the Contract Year 4 TRC, whichever is greater. The maximum Basic Credit Amount will be equal to the TRC times 120% minus the TRC amount. An Achievement Credit of 17% will apply on revenue above 120% of the TRC.

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.10 Assignment and Transfer

If the Customer wishes to assign or transfer its use of services under this Contract Offer No. Y pursuant to F.C.C. No. 2, Section 2.1.2 of this Tariff, the SBC Telephone Companies will acknowledge such transfer or assignment pursuant to the terms of F.C.C. No. 2, Section 2.1.2, unless:

(A) the proposed assignee or transferee demonstrates a lack of credit worthiness under one of the criteria in (1) or (2) below, or

(B) if the proposed assignee or transferee or its parent company has commenced a voluntary receivership or bankruptcy proceeding (or had a receivership or bankruptcy proceeding initiated against it).

(1) Any debt securities of the proposed assignee or transferee or its parent (defined as an entity that owns directly or indirectly, more than 50 percent of the equity of the proposed assignee or transferee) are rated below investment grade, as defined by the Securities and Exchange Commission or if any debt securities of a proposed assignee or transferee or its parent are rated the lowest investment grade and have been placed on review by the rating organization for a possible downgrade.

(2) The proposed assignee or transferee does not have any outstanding securities rated by credit rating agencies (e.g. Standard and Poor's), but does have a Dun and Bradstreet rating, and the proposed assignee or transferee is rated "fair" or below in a composite credit appraisal published by Dun and Bradstreet, or "high risk" in a Paydex score as published by Dun and Bradstreet.

22.YY.11 Mergers and Acquisitions

(A) The terms and conditions of this Contract Offer shall continue in full force and effect if the Customer, in whole or in part, merges with, acquires, is acquired by, sells all or substantially all its stock or assets to any other entity, or purchases all stock or substantially all stock or assets of another company (the foregoing generally referred to herein as a merger or acquisition). Upon the Transaction Close Date of the merger or acquisition, if the other company involved in the merger or acquisition also purchases any services that are Contributory Services under this Contract Offer No. Y from the SBC Telephone Companies, the Contributory Services purchased by the other company will not count toward the Gross Revenue achievement or TRC amount and the Contributory Services provided for in this Contract Offer will continue to be maintained at the same volume, rates, terms, and conditions as outlined herein. The Transaction Close Date shall be defined as the date that the stock purchase is complete and/or the final date on which the assets of the acquired/merged company have been purchased. If the Customer chooses to include the other company's

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY 11 Mergers and Acquisitions (Cont'd)

(A) (Cont'd)

Contributory Services in this Contract, the TRC will be increased by the amount of the other company's qualified revenue. The Maximum Basic Credit will not change. Upon including the other company's Contributory Services in this Contract Offer, any pricing flexibility contract offer or similar intrastate arrangement governing the included services shall be deemed terminated and any termination liability or other charges will apply as provided in the previously effective pricing flexibility contract offer or similar intrastate arrangement. The Customer's Maximum Basic Credit amount will not change as a result of this transfer. The Customer will have 10 business days from the Transaction Close Date to notify the SBC Telephone Companies of their desire to include the other companies revenue into this Contract Offer. The Access Service Ratio, as described in Section 22.Y 4, will be applicable to all of the Customer's affiliates, regardless of their inclusion in, or exclusion from, this Contract Offer

Example: Customer has a Contract Year 2 TRC of $90M and is eligible to earn up to a maximum of $18M in Basic Credits. Customer acquires another company with Contributory Services equal to $40M and the Customer chooses to add that company to Contract Offer No. Y. The Customer's new Contract Year 2 TRC will be $130M ($90M plus $40M = $130M). The Customer's maximum Basic Credit ($18M) will not change as a result of the inclusion of the acquired companies Contributory Services.

This increase in the TRC amount will apply to Contract Year 2 and Contract Year 3, as well as any optional Contract Year Extension.

(B) Mergers and Acquisitions Affecting Access Service Ratio. If any merger or acquisition affects the Customer's Access Service Ratio, the Customer's compliance with the Access Service Ratio requirements of this Contract Offer shall be governed by this Section 22.Y.11(B), notwithstanding anything to the contrary in this Contract Offer.

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.11 Mergers and Acquisitions (Cont'd)

(B) (Cont'd)

(1) If the Customer, in whole or in part, merges with, acquires, is acquired by, sells all or substantially all its stock or certain assets to any other entity, or purchases all stock or substantially all stock or certain assets of another company, and the merger or acquisition will cause the Customer to fall below Access Services Ratio Terms and Conditions as defined in Section 22.Y.4, regardless of whether the Customer chooses to include the other company's Contributory Services in the Contract Offer, the Customer will have 120 days from the transaction close date to fully conform to the Access Service Ratio requirement of this Contract Offer. Unbundled network elements and equivalent offerings shall be converted to the equivalent Contributory Services according to the schedule provided in Table 9, below. Any Contributory Services provided to the other company shall be included in the calculation of the Access Service Ratio immediately following the transaction close date.

Table 9 outlines the Unbundled Network Element (UNE) to Access conversion schedule that will be used to migrate the services.

Table 9: Access Conversion Schedule 30 Day Period Required Conversion Level

1st 30 days	0%
2nd 30 days	30%
3rd 30 days	65%
4th 30 days	100%

(2) As long as the Customer is in compliance with the Access Conversion Schedule and the Customer's existing revenue complies with the Access Services Ratio, as provided in Section 22.Y.4, applicable Basic Credits will continue to apply and the Customer shall not be considered out of compliance with the Access Service Ratio Terms and Conditions as defined in Section 22.Y.4.

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.11 Mergers and Acquisitions (Cont'd)

(B) (Cont'd)

(3) If the Customer does not comply with the Access Conversion Schedule provided in Table 9, TRC discounts will be withheld and the SBC Telephone Companies will notify the Customer of non-compliance. The Customer will then have 60 days to comply with the Access Conversion Schedule. If the Customer does not comply within 60 days, this Contract Offer shall be deemed to be in default, and the SBC Telephone Companies shall have the right to terminate this Contract Offer.

Upon such termination, termination liability charges will apply as provided in Section 22.Y.13. Notwithstanding the foregoing, if the SBC Telephone Companies are primarily responsible for any delay in the Access Conversion Schedule, TRC discounts will continue to apply, the Customer shall not be considered out of compliance with the Access Services Ratio Terms and Conditions as defined in Section 22.Y.4, and this Contract Offer will not be considered in default, provided, however, that each party shall exercise best efforts to comply.

(4) If the Customer chooses to include the other company's Contributory Services in this Contract Offer, existing Contributory Services provided to the other company shall be included in this Contract Offer immediately upon the SBC Telephone Companies receipt of the Customer's notice of intent to include them, and the TRC will be increased by the amount of the other company's qualified revenues. The monthly TRC will be increased to reflect the conversion of unbundled network elements and equivalent offerings according to the schedule provided in Table 9, above. After each thirty-day period, the TRC will be increased to include the portion of Contributory Services converted, until a final monthly TRC is calculated at the end of the 120-day conversion period. The Customer's Maximum Basic Credit amount will not change as a result of the inclusion of the other company's Contributory Services in this Contract Offer. At the end of the 120-day conversion period, the final monthly TRC will apply for the remainder of that Contract Year. In each subsequent Contract Year, the TRC will continue to include the revenues associated with other company's Contributory Services.

22.YY.12 Cessation of Business by the SBC Telephone Companies.

If, at any time during the Term Period, the SBC Telephone Companies cease to provide telecommunications services in any MSA subject to this Contract Offer, sells or divests its operating assets in any MSA subject to this Contract Offer, or otherwise ceases to provide any of the Contributory Services subject to this Contract Offer, the TRC will be decreased by the amount of the qualified revenue associated with the Contributory Services no longer provided by the SBC Telephone Companies.

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.13 Termination Liability Charges

Termination liability language described below applies in lieu of the termination liability language in F.C.C No. 2, Section 7. If the Customer terminates Contract Offer No. Y before the expiration of the Contract Period for any reason, except for that defined in 22.Y.13 (B) below, the Customer must pay the SBC Telephone Companies termination liability charges as described below. These charges shall become due as of the effective date of the cancellation or termination. The Customer must provide written notification 90 days prior to the desired date of termination to the SBC Telephone Companies. This notification must include the date upon which the Customer will terminate the Contract Offer.

(A) If the Customer fails to meet any of the eligibility criteria in Section 22.Y.2, or fails to meet any of the terms and conditions in Contract Offer No. Y, then the SBC Telephone Companies shall provide the Customer with written notification of such non-compliance and the Customer will have sixty (60) days to return to compliance. If the Customer does not return to compliance within such time period, the Customer will be deemed to have terminated its participation in Contract Offer No. Y and termination liability charges will apply as stated below and will be payable within sixty (60) days from the time the contract is deemed terminated.

(B) If the SBC Telephone Companies fail in aggregate to maintain a Network Availability cumulative annual target of 90% for all services for twelve consecutive months the Customer will have the option to notify the SBC Telephone Companies of their intent to terminate this Contract Offer. The Customer must provide the SBC Telephone Companies with ninety (90) days notice of their intent to invoke this escape clause and return their services to standard special access services. The SBC Telephone Companies will have 60 days, from the date that Customer notice is received, to rectify the service problems or the Customer will be allowed to terminate this offering without incurring any termination liability on the services moved to standard Special Access services. If the SBC Telephone Companies meet the Network Availability targets within 60 days then the Customer will continue to purchase services under this offering.

The following occurrences will not be included in the measurements described in the calculation of Network Availability.

(1) In the case of labor disputes, governmental orders, civil commotions, or criminal actions taken against the SBC Telephone Companies. The SBC Telephone Companies will be excused for the duration of these events.

22. Pricing Flexibility Contract Offerings (Cont'd)

22.Y Contract Offering No. Y – Access Discount Offer (Cont'd)

22.Y.13 Termination Liability Charges (Cont'd)

(B) (Cont'd)

(2) Actions outside of the SBC Telephone Companies reasonable control (e.g., catastrophic weather conditions) that has a severe impact on the SBC Telephone Companies ability to provision and repair service, the SBC Telephone Companies will be excused, for the duration of the situation, from the performance measures set forth herein. Any such temporary exemption will apply only to the dispatch area(s) directly affected by the situation, and the SBC Telephone Companies will return to the levels of performance required hereunder as promptly as is reasonably practicable. To the extent additional dispatch areas are impacted by such a situation, the SBC Telephone Companies will give prompt notice to the Customer of the scope and nature of such impact so the parties can determine whether additional temporary exemptions from the applicable performance measures are appropriate.

(3) Interruptions caused by the negligence of the customer, customers end-user or other third parties not affiliated with the SBC Telephone Companies.

(4) Interruptions of a service due to the failure of equipment or systems provided by the customer or parties other than the SBC Telephone Companies.

(5) Interruptions of a service during any period in which the Qualified Companies are not afforded access to the premises where the service is terminated.

(6) Interruptions of a service when the Customer has released that service to the SBC Telephone Companies for maintenance purposes, to make rearrangements, or for the implementation of an order for a change in the service during the time that was negotiated with the customer prior to the release of that service.

(7) Interruptions of a service which continue because of the failure of the customer to authorize replacement of any element of special construction, as set forth in Section 5 and Section 13 of F.C.C. No. 2.

(8) Interruptions that occur on facilities that the customer elected not to release the service to the SBC Telephone Companies for testing and/or repair.

22. Pricing Flexibility Contract Offerings (Cont'd)

22.YY Contract Offering No. Y – Access Discount Offer (Cont'd)

22.YY.13 Termination Liability Charges (Cont'd)

(C) If the Customer terminates its subscription to this Contract Offer prior to the end of the Contract Term, for any reason other than described in 22.Y.13 (B) above, the *Customer must pay termination liability charges as described below:*

Termination of Contract during:

Contract Year 1 – Any credits received under this Contract Offer plus 25% of TRC for remaining months of Contract Term

Contract Year 2 – Last 6 months of credit received under this Contract Offer plus 25% of TRC for remaining months of Contract Term.

Contract Year 3 – Last 6 months of credit received under this Contract Offer plus 10% of total TRC for Contract Year 3.

Example:

The Customer's 2006 TRC is $90M. The Customer terminates the contract on April 31, 2006. The Customer has 20 months remaining on the *Contract Term and has received $6M in credits under this Contract Offer in the* 6 months prior to termination. The customer will owe $41.8M in termination liability

$26.25M * 4 = $105M
$105M times 85.5% = $90M
$90M/12 = $7.5M * 8 = $60M * 25% = $15M for remainder of Contract Year 2

plus

$105M times 79.2% = $83M
$83M * 25% = $20.8M for Contract Year 3

Contract Year 2 + Contract Year 3 + Last 6 months of credits

$15M + $20.8M + $6M = $41.8M Termination Liability

D

BEAR STEARNS
Mike McCormack, CFA
212 272-4117
mmccormack@bear.com

Equity Research
Telecom Services/Wireline / Rated: Market Weight
June 17, 2005

Highlights from Meetings With Enterprise Telecom Consultants

Key Points

*** We have just returned from meetings with a large telecom consultant that focuses on negotiating telecom contracts (wireline and wireless) for Fortune 500 enterprise telecom customers. Our key takeaways are highlighted below.

Bear Stearns acted as financial advisor and rendered a fairness opinion to Verizon in its announced transaction with MCI.

Wireline

Pricing

- pricing remains aggressive; carriers seem to be focused on retaining customers prior to consolidation; have seen 3-4 price downs in the last 12-18 months
- consultants believe consolidation will be bad for enterprise customers; believe Verizon and SBC will seek to improve pricing; Verizon seems most likely to hold the line on pricing
- advising clients to renegotiate contracts now, ahead of consolidation; seeking more flexibility in anticipation of having less leverage post-consolidation; also seeking to lock in today's prices with an option to extend; consolidation is causing customer anxiety
- in some cases, carriers are seeking shorter-term contracts; anticipation that leverage shift will occur
- roughly 30% of enterprise telecom contracts are still priced 20% higher than current rates; even if pricing stabilizes, it will take time for the contract base to reach equilibrium on price
- Sprint is not as competitive as AT&T and MCI on price; Sprint is generally viewed as a less advanced network

Market Dynamic

- customers are not reluctant to sign on with MCI
- AT&T and MCI combined have roughly 80% market share of enterprise telecom; MCI has approximately 286 global business accounts
- incumbent telecom provider for large enterprise has a significant advantage in negotiations; significant discount is needed to unseat incumbent
- billing platform integration will be problematic in consolidation
- Fortune 500 customers usually pick either AT&T or MCI as their primary carrier due to the superior asset bases at these companies

PLEASE SEE PAGE 2 OF THIS NOTE FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION.

- Sprint, Qwest, and other "tier three" providers are often used for negotiating leverage against AT&T and MCI but are rarely chosen as the primary carrier by Fortune 500 companies

Enterprise VoIP

- VoIP adoption at the enterprise level remains insignificant; consultants indicated that in the last year they have not done any contracts for enterprise VoIP
- VoIP migration ROI remains unproven; traditional voice is so cheap that migration benefit is mitigated
- have not done any RFPs for VoIP in the last year

MPLS

- MPLS is typically a part of all new contracts
- carriers are pushing customers away from ATM and Frame Relay, hoping to migrate to MPLS
- new software upgrades are almost exclusively MPLS
- believe carriers generate 15%-20% cost reduction when customer migrates to MPLS; although upfront cost is high

Wireless

Market Dynamic

- enterprise wireless remains the "Wild West"; very little organized corporate purchasing
- Sprint is pursuing combined wireless/wireline contracts with little traction; typically involves different groups within customer organizations
- only 20%-30% of large enterprises have adopted a managed approach to wireless
- wireless carriers still employ a consumer mentality when selling to large enterprises; rapidly changing as enterprises begin to realize cost saving opportunity
- corporations are beginning to realize the risks associated with unmanaged wireless devices; camera phones and wireless e-mail create significant liability for large enterprises
- Verizon Wireless still viewed as premium provider; sometimes unwilling to engage enterprise negotiations; in 6 recent negotiations, Verizon has no-bid (walked away) on 2.

Pricing

- when wireless purchasing is coordinated and negotiated at the corporate level, price reductions of 30% are not uncommon
- consultants are pushing carriers to flat rate per minute pricing in the $0.06-$0.08 range depending on size of organization; eliminates costly breakage and overage

Companies Mentioned

VERIZON COMMUNICATIONS INC. (VZ - USD 34.94) - Peer Perform
SBC COMMUNICATIONS INC. (SBC - USD 23.95) - Peer Perform
AT&T CORP. (T - USD 19.22) - Peer Perform
QWEST COMMUNICATIONS INT'L INC. (Q - USD 3.67) - Peer Perform
SPRINT CORP (FON - USD 24.86) - Outperform

IMPORTANT DISCLOSURES

ANALYST CERTIFICATION

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.
Mike McCormack, CFA

MCI GROUP(MCIP): Bear, Stearns & Co. Inc. is a market maker in this company's equity securities.

For important disclosure information regarding the companies in this report, please contact your registered representative at 1-888-473-3819, or write to Sandra Pallante, Equity Research Compliance, Bear, Stearns & Co. Inc., 383 Madison Avenue, New York, NY 10179.

The costs and expenses of Equity Research, including the compensation of the analyst(s) that prepared this report, are paid out of the Firm's total revenues, a portion of which is generated through investment banking activities.

Bear, Stearns & Co. Equity Research Rating System:
Ratings for Stocks (vs. analyst coverage universe):
Outperform (O) - Stock is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (P) - Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (U) - Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

Ratings for Sectors (vs. regional broader market index):
Market Overweight (MO) - Expect the industry to perform better than the primary market index for the region (S&P 500 in the US) over the next 12 months.
Market Weight (MW) - Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the US) over the next 12 months.
Market Underweight (MU) - Expect the industry to underperform the primary market index for the region (S&P 500 in the US) over the next 12 months.

Bear, Stearns & Co. Ratings Distribution as of March 31, 2005:
Percentage of BSC universe with this rating / Percentage of these companies which were BSC investment banking clients in the last 12 months.
Outperform (Buy): 38.2 / 16.5
Peer Perform (Neutral): 50.3 / 11.2
Underperform (Sell): 11.5 / 4.2

FOR INDUSTRY COVERAGE DATA, PLEASE CONTACT YOUR ACCOUNT EXECUTIVE OR VISIT www.BEARSTEARNS.com

Securities covered by the author(s) of this report include:

Michael McCormack (Wireline Services): ALLTEL Corporation, AT&T Corp., BellSouth Corporation, CenturyTel, Inc., Citizens Communications, Qwest Communications Int'l Inc., SBC Communications Inc., SPRINT CORP, Time Warner Telecom Inc., Verizon Communications Inc.

OTHER DISCLAIMERS

This report has been prepared by Bear, Stearns & Co. Inc., Bear, Stearns International Limited or Bear Stearns Asia Limited (together with their affiliates, "Bear Stearns"), as indicated on the cover page hereof. This report has been adopted and approved for distribution in the United States by Bear, Stearns & Co. Inc. for its and its affiliates' customers. If you are a recipient of this publication in the United States, orders in any securities referred to herein should be placed with Bear, Stearns & Co. Inc. This report has been approved for publication in the United Kingdom by Bear, Stearns International Limited, which is authorized and regulated by the United Kingdom Financial Services Authority. Private Customers in the U.K. should contact their Bear, Stearns International Limited representatives about the investments concerned. This report is distributed in Hong Kong by Bear Stearns Asia Limited, which is regulated by the Securities and Futures Commission of Hong Kong. Additional information is available upon request.

Bear Stearns and its employees, officers, and directors deal as principal in transactions involving the securities referred to herein (or options or other instruments related thereto), including in transactions which may be contrary to any recommendations contained herein. Bear Stearns and its employees may also have engaged in transactions with issuers identified herein. Bear Stearns is affiliated with a specialist that may make a market in the securities of the issuers referred to in this document, and such specialist may have a position (long or short) and may be on the opposite side of public orders in such securities.

This publication does not constitute an offer or solicitation of any transaction in any securities referred to herein. Any recommendation contained herein may not be suitable for all investors. Although the information contained in the subject report (not including disclosures contained herein) has been obtained from sources we believe to be reliable, the accuracy and completeness of such information and the opinions expressed herein cannot be guaranteed. This publication and any recommendation contained herein speak only as of the date hereof and are subject to change without notice. Bear Stearns and its affiliated companies and employees shall have no obligation to update or amend any information or opinion contained herein.

This publication is being furnished to you for informational purposes only and on the condition that it will not form the sole basis for any investment decision. Each investor must make their own determination of the appropriateness of an investment in any securities referred to herein based on the tax, or other considerations applicable to such investor and its own investment strategy. By virtue of this publication, neither Bear Stearns nor any of its employees shall be responsible for any investment decision. This report may not be reproduced, distributed, or published without the prior consent of Bear Stearns.

This report may discuss numerous securities, some of which may not be qualified for sale in certain states and may therefore not be offered to investors in such states. This document should not be construed as providing investment services. Investing in non-U.S. securities including ADRs involves significant risks such as fluctuation of exchange rates that may have adverse effects on the value or price of income derived from the security. Securities of some foreign companies may be less liquid and prices more volatile than securities of U.S. companies. Securities of non-U.S. issuers may not be registered with or subject to Securities and Exchange Commission reporting requirements; therefore, information regarding such issuers may be limited.

NOTE TO ACCOUNT EXECUTIVES: For securities that are not listed on the NYSE, AMEX, or Nasdaq National Market System, check the Compliance page of the Bear Stearns Intranet site for State Blue Sky data prior to soliciting or accepting orders from clients.

BERNSTEIN RESEARCH CALL

January 6, 2005

Jeffrey Halpern • halpernjz@bernstein.com • +1-212-407-5956

U.S. Telecom: Wholesale Segment Too Large to Sweep Under Rug, But Expected to Decline At 2.5% CAGR Through '09

Ticker	Rating	CUR	1/5/2005 Closing Price	Target Price	YTD Rel. Perf.	EPS 2003A	EPS 2004E	EPS 2005E	P/E 2003A	P/E 2004E	P/E 2005E	Yield
BLS	U	USD	27.27	23.00	0.5%	1.95	1.87	1.65	14.0	14.6	16.5	4.0%
Q	O	USD	4.38	5.00	1.0%	-0.38	-0.60	-0.22	NM	NM	NM	0.0%
SBC	U	USD	25.44	21.00	1.0%	1.55	1.52	1.41	16.4	16.7	18.0	5.1%
VZ	M	USD	40.02	43.00	1.1%	2.62	2.46	2.49	15.3	16.3	16.1	3.8%
T	M	USD	18.49	16.00	-0.7%	2.36	1.81	1.45	7.8	10.2	12.8	5.1%
SPX			1183.74			54.50	66.00	70.00	21.7	17.9	16.9	2.0%

O – Outperform, M – Market-Perform, U – Underperform

Highlights

- The market for wholesale telecom services – the "carrier's carrier" market – totals $45B in annual revenues, nearly one-third the size of the retail wireline telecom market. Although the wholesale market is projected to decline by 2.5% annually over the next five years, ***wholesale services are increasingly significant contributors to the toplines of several major operators including AT&T and Qwest.***
  - For AT&T, wholesale services will grow from 23% to 27% of AT&T's Business Services revenues between 2004 and 2008. For Qwest, wholesale services will grow from 11% to 15% of total revenues over the same period. Therefore, these companies' revenue trends will differ from what one would conclude by looking only at their roles in the retail services market, which will grow at a 2.1% annual CAGR.
  - While the cost of providing wholesale services is less than that for retail services, ***wholesale operating margins are generally lower*** due to disproportionately lower pricing. Costs are mainly fixed, so profitability hinges on scale and operational efficiency.
- Wholesale *local* services are largely non-competitive, being provided almost exclusively by the ILECs due to their monopoly over local access infrastructure. On the other hand, the market for wholesale *long-distance* voice and data services is intensely competitive and dynamic.
  - In most cases, wholesale long-distance services are undifferentiated. Combined with persistent oversupply from newer entrants like Level3 and Global Crossing, this has led to intense price pressure.
  - In general, ***wholesale prices fall faster than retail prices***. Unit price declines for wholesale voice appear to be over 10% annually, while data prices typically decline at a greater than 20% rate. Prices for high-capacity IP bandwidth have declined by as much as 40% per year.
  - Some wholesale carriers are countering price declines by attempting to move up the value chain towards managed services. In addition to pure bandwidth, these carriers now also offer consulting, billing, customer care, and other services.

Jeffrey Halpern • *halpernjz@bernstein.com* • *+1-212-407-5958*

- We expect wholesale revenues to be unchanged at $45B in 2005, then decline gradually to $39B by 2009. On the local side, demand will drop off as RBOCs increase their penetration into the *retail* long-distance market, displacing IXCs who are the main customers for wholesale local services (UNEs). Demand for wholesale long-distance services should remain robust, but price declines will limit revenue growth.
  - Demand for wholesale long-distance voice and data capacity is driven by several developments: the RBOCs' expansion in the long-distance market, increasing wireless usage, growing broadband adoption, and the emergence of cable telephony and VoIP.
- The size of the wholesale market – ***and the opportunity for wholesale service providers*** – is highly sensitive to the evolution of the overall telecom industry structure. Consolidation will tend to decrease wholesale revenues, while the emergence of new retail competitors would likely have the opposite effect.
  - In the event of a merger between carriers, an analysis of wholesale revenue flows will be critical in evaluating the topline impact. Because wholesale revenues are carrier-to-carrier, a merger could convert some of these revenues to internal transfer costs, thereby decreasing reported revenues. Reported profit margins would likely improve due to this conversion, however, even before any true operational synergies are realized.
  - Furthermore, a merger could decrease the size of the wholesale market for other carriers, as the merged companies would be more likely to procure their wholesale needs from each other (again, through a transfer cost arrangement).

Investment Conclusion

Facing declining revenues in its retail business, AT&T's service mix is increasingly shifting toward wholesale, with two implications: (1) overall revenues will not fall as quickly as suggested by an analysis of its retail market share alone, and (2) profit margins will be compressed due to the lower margins on wholesale. In our view, the key question for AT&T is whether it can streamline its operations sufficiently to be profitable in the lower-margin wholesale business, while also maintaining its leadership position in the high-touch retail enterprise business. We believe the impact of AT&T's wholesale activities is not well understood by investors and the market in general. For AT&T, we maintain our Marketperform rating and our recently raised target price of $16. (See Research Call, *"U.S. Telecom Update: Revising Earnings Forecasts, Raising AT&T Target Price, Maintaining Ratings,"* December 17, 2004.)

Qwest is the only RBOC with significant exposure to both wholesale local and long-distance services, being both an RBOC and an IXC. On the local side, Qwest provides voice and data connectivity to other carriers serving customers in its region. On the long-distance side, Qwest will see similar dynamics as AT&T: demand for wholesale voice and data will be strong, but price pressures will limit margins and profitability. We maintain our Outperform rating on Qwest and target price of $5.

Details

In our latest round of telecom market analysis, we have thoroughly separated wholesale revenues from retail in order to better reflect the trends and drivers of each segment. The wholesale segment has long been naively grouped with the enterprise segment by analysts and the carriers themselves, on the grounds that many wholesale customers – usually other carriers – are also large corporations. Although this is technically true, we believe it is important to make the distinction between wholesale and retail because the growth prospects and competitive dynamics of the two segments are very different. Therefore, for companies that actively compete in both segments, among them AT&T and Qwest, it is not possible to accurately evaluate their topline and profitability prospects without considering each segment separately.

Jeffrey Halpern • halpernjz@bernstein.com • +1-212-407-5958

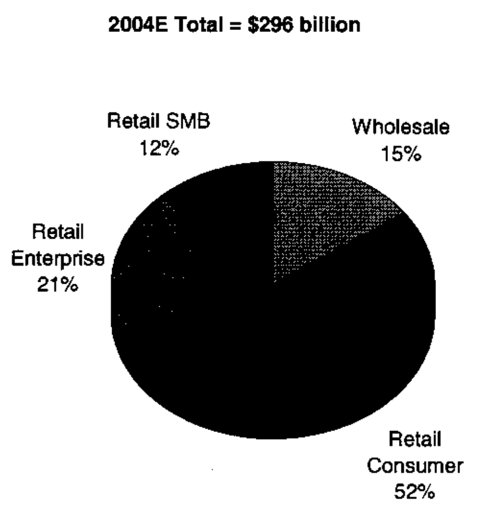
This report focuses on the wholesale segment, complementing our report on the enterprise segment also released today. (See Research Call: *"U.S. Telecom: Superior Growth Prospects Make Enterprise Market a Key Battleground for U.S. Service Providers,"* January 6, 2005.)

Wholesale services do not represent incremental end-user spending, but are nevertheless an integral component of the telecom market. Most large local and long-distance carriers purchase and sell wholesale services, to enable their own service offerings as well as those of other carriers. For example, RBOCs purchase long-distance capacity from IXCs to support their long-distance voice business; at the same time, they sell to the IXCs wholesale local access services like "special access" connectivity to complete the IXCs' long-distance calls. Broadband and wireless providers also rely on wholesale capacity to carry their data and voice traffic. The wholesale market is critical to a number of smaller players whose business models revolve around reselling services purchased from larger carriers. Included in this group are CLECs, private-label ISPs, and other providers.

Wholesale in Context: A $45B Market Declining 2.5% Annually Through 2009

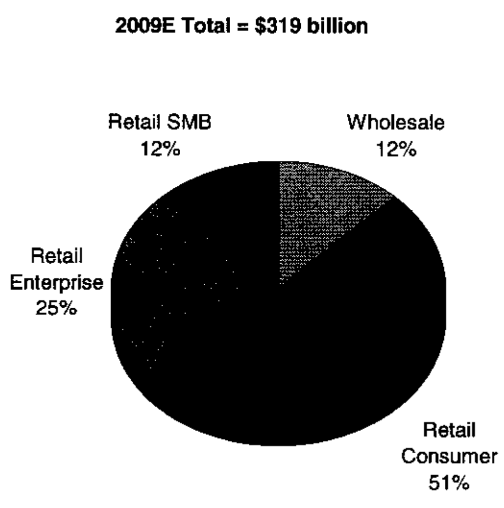
In aggregate, the wholesale market represents $45B of annual service provider revenues, in addition to the $251B retail market; in other words, wholesale services contributed approximately 15% of the total 2004 $296B in telecom service revenues (**Exhibit 1**). As the retail market grows by $28B over the next five years (for a CAGR of 2.1%), we project the wholesale market will decrease by $6B (CAGR of (2.5)%) – leading it to be only 12% of total telecom revenues in 2009 (**Exhibit 2**). The retail enterprise segment will drive more than half of the telecom industry's growth, increasing its share of the market from 21% to 25%; while the consumer and SMB segments' shares will remain roughly constant in percentage terms.

Exhibit 1
Breakdown of total U.S. telecom market, 2004E



Source: Bernstein estimates and analysis

Exhibit 2
Breakdown of total U.S. telecom market, 2009E



Source: Bernstein estimates and analysis

Jeffrey Halpern • halpernjz@bernstein.com • +1-212-407-5958

Breaking Down the Wholesale Market

At a high level, wholesale revenues can be divided into two categories: local and long-distance.

- *Wholesale local services* are provided by the ILECs (Verizon, SBC, BellSouth, Qwest, and others) to other carriers. These services include: access charges paid by IXCs (e.g. AT&T, MCI, Sprint, etc.) to originate and terminate long-distance calls; local private lines used by IXCs and CLECs to transport data or voice traffic from a customer site to the IXC's point-of-presence (also called "special access" lines); local private lines used to connect a wireless network's mobile switching centers to the PSTN (another form of special access); and local access lines leased to CLECs and other carriers, via regulated (*e.g.*, UNE) or negotiated arrangements, for resale to consumers and small businesses.
- *Wholesale long-distance services* are provided by the large established IXCs as well as smaller, newer networks such as Level3 and Global Crossing. The dominant products here are long-distance voice capacity to support wireless and alternative voice providers (including VoIP); IP transport for broadband providers; and general bandwidth (including "dark fiber") for other long-distance carriers to complete their networks. Wholesale providers typically also offer associated services such as collocation (hosting of customer equipment), security and billing.

The division of wholesale services into local and long-distance is convenient because these segments have very different characteristics. The market for wholesale local services, while large, exists mainly because of the ILECs' legacy monopoly over local access infrastructure. As such, they are governed more by regulatory measures (*e.g.*, interconnect and unbundling rules) than by market forces. The ILECs have almost no competition in providing these services, and other carriers often have little choice but to purchase these services from the ILECs. On the other hand, the markets for wholesale long-distance voice and data services are highly competitive. The established long-haul carriers – AT&T, MCI, and Sprint – not only compete with each other, but also with relative upstarts such as Level3, Global Crossing, 360networks, Wiltel, and a host of others. The long-distance market is burdened with a capacity glut from the over-investment of the late 1990's, leading to persistent pricing pressure.

Exhibit 3 provides our detailed forecast of wholesale revenues while **Exhibit 4** offers our retail telecom market forecast for context. Note that, for now, we have not included any wireless revenues within wholesale, as wholesale currently represents an inconsequential portion of the wireless market, serving the few mobile virtual network operators (MVNOs) that have emerged. As the MVNO model proliferates, we expect to see wholesale wireless services become a more significant segment of the market.

Exhibit 3
Bernstein U.S. Wholesale Telecom Services Forecast

U.S. Wholesale Telecom Services Revenues ($ billion)												
											CAGR	
	2000	2001	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2000 - 2003	2004E - 2009E
Local Voice	$16.1	$14.5	$13.2	$13.1	$13.1	$12.6	$12.0	$11.2	$10.6	$9.9	-6.6%	-5.4%
Local Data	9.6	12.2	13.1	13.2	12.8	12.7	12.8	12.8	12.6	12.2	11.3	-1.0
Subtotal: Wholesale Local	**$25.7**	**$26.7**	**$26.3**	**$26.3**	**$25.9**	**$25.3**	**$24.7**	**$24.1**	**$23.2**	**$22.1**	**0.8%**	**-3.1%**
Long-Distance Voice	$4.3	$6.4	$7.8	$8.4	$9.1	$9.3	$8.8	$8.1	$7.5	$6.9	24.8%	-5.4%
Long-Distance Data	7.7	8.3	10.3	9.7	9.6	10.1	10.9	11.3	11.0	10.3	8.0	1.4
Subtotal: Wholesale LD	**$12.0**	**$14.7**	**$18.0**	**$18.1**	**$18.7**	**$19.4**	**$19.6**	**$19.3**	**$18.4**	**$17.2**	**14.6%**	**-1.7%**
Total Wholesale Market	**$37.7**	**$41.4**	**$44.4**	**$44.5**	**$44.6**	**$44.7**	**$44.3**	**$43.4**	**$41.6**	**$39.3**	**5.6%**	$\boxed{\textbf{-2.5\%}}$
Memo: Yr/Yr Change		9.8%	7.1%	0.2%	0.3%	0.3%	-0.8%	-2.1%	-4.2%	-5.6%		

Source: Bernstein estimates and analysis

Jeffrey Halpern • halpernjz@bernstein.com • +1-212-407-5958

Exhibit 4
Bernstein U.S. Retail Telecom Services Forecast

U.S. Retail Telecom Services Revenues ($ billion)											CAGR	
	2000	2001	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2000 - 2003	2004E - 2009E
Local Voice	$88.5	$86.3	$82.3	$78.4	$75.6	$73.3	$71.6	$70.5	$69.4	$68.4	-4.0%	-2.0%
Local Data	12.0	13.0	14.2	16.1	19.7	22.4	23.7	24.8	25.9	26.8	10.3	6.4
Subtotal: Retail Local	**$100.5**	**$99.3**	**$96.5**	**$94.4**	**$95.2**	**$95.7**	**$95.4**	**$95.3**	**$95.3**	**$95.2**	**-2.1%**	**0.0%**
Long-Distance Voice	$67.6	$53.9	$45.2	$37.8	$31.9	$27.0	$22.9	$19.5	$16.7	$14.4	-17.6%	-14.7%
Long-Distance Data	18.7	23.2	22.6	20.3	18.8	18.1	18.2	19.1	20.9	23.0	2.9	4.1
Subtotal: Retail Long-Distance	**$86.3**	**$77.1**	**$67.8**	**$58.2**	**$50.6**	**$45.1**	**$41.1**	**$38.6**	**$37.6**	**$37.3**	**-12.3%**	**-5.9%**
Wireless Voice	$59.9	$74.1	$83.2	$91.9	$101.2	$110.8	$118.5	$124.4	$128.9	$133.0	15.3%	5.6%
Wireless Data	0.4	0.5	1.3	2.2	4.4	6.6	8.7	10.8	12.6	13.9	79.5	26.1
Subtotal: Retail Wireless	**$60.3**	**$74.6**	**$84.5**	**$94.1**	**$105.6**	**$117.3**	**$127.2**	**$135.2**	**$141.5**	**$146.9**	**16.0%**	**6.8%**
Total Retail Market	**$247.2**	**$251.0**	**$248.8**	**$246.8**	**$251.4**	**$258.2**	**$263.7**	**$269.1**	**$274.4**	**$279.4**	**-0.1%**	**$\boxed{2.1\%}$**
Memo: Yr/Yr Change		1.5%	-0.9%	-0.8%	1.9%	2.7%	2.1%	2.0%	2.0%	1.8%		

Source: Bernstein estimates and analysis

As **Exhibit 3** shows, we expect wholesale revenues to be roughly unchanged at about $45B in 2005, then decline to $39B by 2009, with similar trends in both local and long-distance services. On the local side, access revenues will continue to decline as RBOCs increase their penetration into retail long-distance voice, displacing the IXCs. RBOCs need not pay access charges to themselves, so at least one-half of such payments (either at the originating or terminating end) will be eliminated. Wholesale recovery revenues (included in local voice) will flatten out, then decrease, as the number of resale and UNE local lines also flattens and then decreases (consistent with our RBOC "calm before the storm" thesis). Local data revenues will remain stable through 2007, then begin to decline in 2008. This inflection coincides with our estimate of when the RBOCs will begin to significantly penetrate the enterprise market, as explained in our enterprise report. As the RBOCs increase share in long-distance data, they will again displace the IXCs, reducing the demand for special access lines. **Exhibit 5** summarizes how revenues from these wholesale local services will change over time.

On the long-distance side, demand for both wholesale voice and data capacity is expected to increase, with data driven by growing broadband adoption and voice driven by the RBOCs and other carriers (*e.g.*, cable operators) expanding into the voice market. However, price pressures will limit revenue growth from these services, causing voice revenues to decrease from 2005 onward, and data revenues to decrease after 2007. By 2009, voice will represent only 40% of the wholesale long-distance market, down from nearly half in 2004. **Exhibit 6** shows the evolution of wholesale long-distance services.